DOCUMENT RESUME

ED 253 123 HE 017 831

TITLE Student Aid in the Reagan Administration. Fact Sheet. Summary.
INSTITUTION American Council on Education, Washington, D.C.
PUB DATE Oct 84
NOTE 9p.
PUB TYPE Reports - Evaluative/Feasibility (142) -- Statistical Data (110)

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS *Budgets; College Students; Eligibility; *Federal Aid; Federal Legislation; Federal Programs; *Financial Policy; Higher Education; *Public Policy; *Student Financial Aid; Student Loan Programs; Trend Analysis
IDENTIFIERS Congress 97th; Congress 98th; Omnibus Reconciliation Act 1981; *Reagan Administration

ABSTRACT

Federal appropriations during 1981-1985 for student financial aid are reviewed, along with the effect of the Omnibus Budget Reconciliation Act of 1981. The effective cut in need-based federal student aid for funding year (FY) 1981 totalled $600 million ($500 million Pell Grants, $100 million National Direct Student Loans). The Omnibus Budget Reconciliation Act of 1981 phased out Social Security educational benefits, which had provided $2 billion, one fifth of federal student aid in FY 1981. The Act also restricted eligibility for Guaranteed Student Loans and reduced spending ceilings for other student aid programs. For FY 1982 President Reagan requested additional cuts totalling $332 million, but Congress set FY 1982 funding at slightly over the FY 1981 level. Congress also set appropriations for FY 1983 at about the same level as FY 1982. The President sought to eliminate the in-school interest subsidy for Guaranteed Student Loans. For FY 1984, Congress increased appropriations for student aid by about $404 million over FY 1983. Finally, for FY 1985 Congress increased student aid programs by $970 million, or $1.3 billion more than the President requested. Appropriations for specific aid programs are also reviewed. (SW)

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Fact Sheet Prepared By:
ACE/DGR - October 1984

STUDENT AID IN THE REAGAN ADMINISTRATION

SUMMARY

First Year. $200 million cut from the FY 81 appropriation for student aid passed by the previous Congress. For FY 82 President Reagan requested additional cuts totalling $332 million. Congress initially accepted, then rejected further cuts, overriding the President's veto to enact a Supplemental Appropriation setting final FY 82 funding slightly over FY 81.

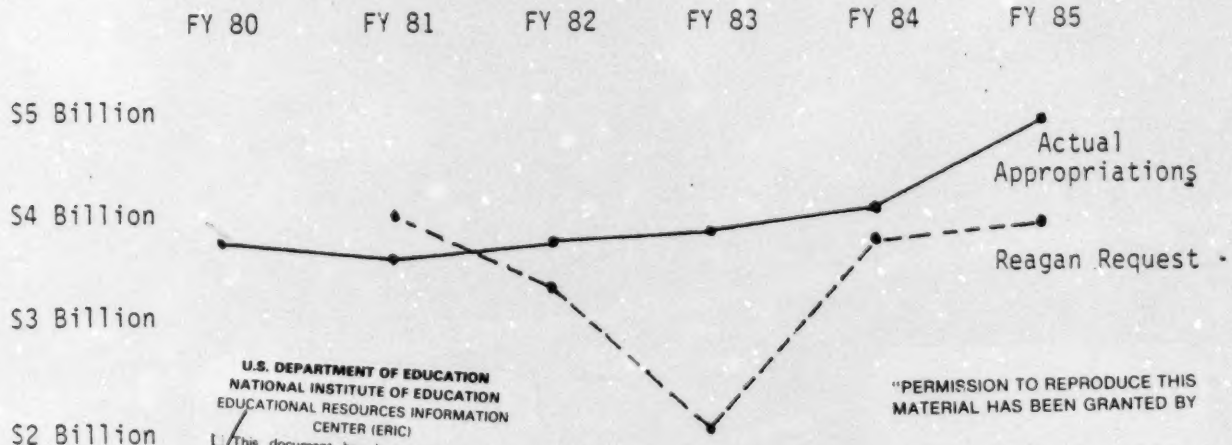
However, the Omnibus Budget Reconciliation Act of 1981 phased out Social Security educational benefits, which had provided $2 billion -- one fifth of federal student aid in FY 81. In addition, the Reconciliation Act restricted eligibility for Guaranteed Student Loans and drastically reduced spending ceilings for other student aid programs.

Second Year. President Reagan proposed massive cuts in need-based student aid programs for FY 83, totalling $1.757 billion in reductions from FY 82. He also sought to eliminate the in-school interest subsidy for Guaranteed Student Loans, which would have crippled this vital program. Congress rejected the cuts, setting appropriations for FY 83 at approximately the same level as FY 82.

Third Year. The President's budget for FY 84 sought about the same funding level as FY 83, with substantial program changes. Congress rejected the changes and increased appropriations for student aid by about $404 million over FY 83.

Fourth Year. The President's FY 85 budget requested a $330 million cut from FY 84. Congress increased student aid programs by $970 million, or $1.3 billion more than the President requested.

Student aid requests, FY 81-85 (excluding GSL) and final appropriations:



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FY 81 Appropriations

The FY 81 appropriation levels established in the Continuing Resolution of December 1980 by the previous Congress were reduced early in the 97th Congress. Need-based student aid programs were cut $200 million from FY 80 levels: $100 million in Pell Grants and $100 million in Direct Loans.

	FY 80	FY 81
Pell Grants	$2.441 B	$2.346 B
SEOG	370 M	370 M
CWS	550 M	550 M
NDSL	286 M	186 M
SSIG	77 M	77 M
TOTAL	$3.724 B	$3.529 B

However, the Pell Grant program suffered a real cut of $500 million below the figure required to maintain all current eligibles in the program ($2.85 billion). As a result, the maximum award was cut to $1,670 from the $1,800 assumed by the previous Congress (further eroding the value of the award, which fell to $1,750 in FY 80 from $1,800 in FY 79, while college costs rose 30 percent over the three-year period). Further restrictions were imposed on eligibility for the program, which eliminated 150,000 students with family incomes over $25,000.

Thus, the effective cut in need-based federal student aid for FY 81 totalled $600 million ($500 million Pell Grants, $100 million NDSL).

Omnibus Budget Reconciliation Act of 1981

This Act, signed by President Reagan August 13, 1981, drastically reduced spending ceilings for higher education programs for Fiscal Years 1982, 1983, and 1984. The Act effectively repealed many of the provisions of the 1980 Education Amendments and the Middle Income Student Assistance Act of 1978, prohibiting increased funding for most programs and requiring further restrictions on Pell Grant eligibility. The act made these changes:

(A) Appropriations limits were imposed on the Pell Grant program for the first time. These limits ($2.65 billion for FY 82, $2.8 billion for FY 83 and $3 billion for FY 84) were insufficient to permit authorized increases in the maximum award to compensate for the rising costs of college, further eroding the value of the award and requiring the removal of thousands of additional middle-income students from eligibility.

Authorizations for SEOG, CWS, NDSL, and SSIG were set at FY 80 levels, foreclosing growth in these programs through FY 84. (By contrast, the 1980 Amendments had authorized increases rising by FY 84 to $800 million for CWS, $550 million for NDSL, $200 million for SSIG, and "such sums" for SEOG.)

For FY 82 alone, these ceilings imposed a loss of $1 billion from "current policy" funding levels which would have permitted continued support for all current eligibles and reasonable growth to reflect inflation. In fact, however, the loss was greater than $1 billion, since final FY 82 appropriations were $378 million below the Reconciliation levels.

(B) Eligibility for Guaranteed Student Loans was restricted to students with family incomes of $30,000 or less, or unmet demonstrated need over $30,000. A five percent origination fee also was established for each new guaranteed loan, and the interest on parent loans was increased to 14 percent.

Thus the cost of borrowing was increased 5 percent for all participants in the program, and the new eligibility requirements forced approximately 800,000 current borrowers out of the program in Academic Year 1982-83.

(C) Social Security educational benefits were phased out, with no new recipients as of June 1982 and current beneficiaries receiving an annual reduction of 25 percent until all benefits end in FY 85. This step alone eliminated one of the largest sources of student support: in of the largest sources of student support: in Academic Year 1981-82 some 750,000 students received social security benefits totalling $2 billion annually. The loss of these benefits placed severe strains on other student aid programs, which could not be increased even to compensate for inflation.

FY 82 Appropriations

In the fall of 1981, President Reagan revised his earlier FY 82 recommendations and requested further cuts in student aid.

The President's recommendations represented a 30 percent cut from the "current services" level which would have implemented the 1980 Amendments and provided modest growth for inflation; a 19 percent cut from the Reconciliation Act levels; a 9 percent cut from FY 81 Levels, and a 14 percent cut from FY 80 levels (despite a 20 percent increase in the Consumer Price Index).

The President also proposed to remove the in-school interest subsidy from the Guaranteed Student Loan program, which could endanger future lending if banks were forced to bill students for interest while in school.

Congress rejected further cuts in the GSL program, but initially sustained the requested cuts for other student aid programs. However, on September 10, 1982, a Supplemental Appropriation was enacted by overriding the President's veto, thereby rejecting the rescissions and raising the final appropriation to approximately the FY 81 level (although $378 million below the Reconciliation Act levels and $169 million below FY 80):

	FY 82 Reconciliation Ceilings	FY 82 Reagan Budget (Revised)	Final FY 82
Pell Grants	$2.650 B	$2.188 B	$2.419 B
SEOG	370 M	278 M	355 M
CWS	550 M	484 M	528 M
NDSL	286 M	179 M	179 M
SSIG	77 M	68 M	74 M
TOTAL	$3.933 B	$3.197 B	$3.555 B

FY 83 Appropriations

Massive cuts in federal student aid were proposed President Reagan's FY 83 Budget. The request for need-based aid represented a 56 percent cut below the levels of the Reconciliation Act and 50 percent below the levels for the 1981-82 Academic Year. The proposals would have resulted in a loss of over 2.4 million awards, and forced thousands of students to drop out or change their educational plans. Further restrictions in the Guaranteed Loan program were proposed to make borrowing more expensive for undergraduate students and deny access to the program for over 600,000 graduate students. Under the Administration's budget:

Pell Grants would have been reduced from $2.4 to $1.4 billion in FY 83. This would have eliminated approximately one million students, assuming a maximum award of $1,800 as provided for FY 82, leaving less than 1.5 million recipients with family incomes under $12,000 (compared to 2.5 million current recipients with family incomes up $24,000). To avoid such a drastic cut in eligibles, the Administration proposed to cut the maximum award to $1,600 -- a 12 percent cut for the neediest students, although college costs were projected to rise 15-20 percent. (The budget also projected a further cut in Pell Grants to $1 billion in FY 84.)

Supplemental Grants (SEOG) would have been eliminated, for a loss of 590,000 awards. State Student Incentive Grants (SSIG) would have been eliminated, for a loss of 300,000 awards matched by state funds. College Work-Study (CWS) would have been cut 25 percent to $397.5 million, removing 220,000 student job opportunities. Federal capital contributions to the Direct Loan program (NDSL) would have been ended, eliminating low-cost loans to 255,000 needy students. The TRIO programs, which encourage attendance and retention of disadvantaged students whose families have never gone to college, would have been cut 47 percent to $82 million.

Guaranteed Student Loan (GSL) changes were proposed to save an estimated $900 million. The Administration sought to double the origination fee from 5 to 10 percent (i.e., to obtain a $2,000 loan a student would have to borrow $2,200); replace the $30,000 income eligibility cap by limiting eligibility to unmet need (cost minus family contribution and other aid); require borrowers to pay market interest rates instead of 9 percent two years after entering repayment; and remove graduate and professional students from eligibility.

For undergraduate borrowers, doubling the origination fee and requiring market interest rates after leaving school would have increased indebtedness by 19 percent. For some 600,000 graduate students -- over half of graduate enrollments -- who depend on GSL's to finance their education, denial of access to GSL would have presented critical problems. They would have been left dependent on the Auxiliary Loans to Assist Students (ALAS) program which carries a 12 percent interest rate (reduced from 14 percent in November 82) and does not provide the GSL in-school interest subsidy. Full-time students could have the payment of principal deferred, but most graduate students are part-time, and they would have to repay principal as well as interest while in school. Graduate students able to obtain ALAS loans would increase their indebtedness by as much as 67 percent.

Graduate Fellowships were also proposed for elimination, including $11.5 million in awards for minorities and women and public service fellowships.

Before the 97th Congress adjourned, a Continuing Resolution was enacted which set student aid appropriations for FY 83 at the following levels:

	FY 83 Reconciliation Ceilings	FY 83 Reagan Budget	FY 83 Appropriation
Pell Grants	$2.800 B	$1.400 B	$2.419 B
SEOG	370 M	0	355 M
CWS	550 M	398 M	540 M
NDSL	236 M	0	179 M
SSIG	77 M	0	60 M
TOTAL	$4.083 B	$1.798 B	$3.553 B

Thus, while FY 83 funding for these programs was almost identical to the total for FY 82, it was 13 percent below the Reconciliation ceiling and, in constant dollars, 23 percent below the FY 80 level.

FY 84 Appropriations

In its first few months the 98th Congress took several steps to increase funding for student aid. An emergency jobs bill passed in March included a $50 million FY 83 supplemental for College Work-Study. The FY 84 Budget Resolution passed in June assumed increases in the student aid programs, although the Reagan Administration's budget called for essentially level funding. The Labor-HHS-Education appropriation, passed in October, provided increases in student aid totalling $370 million - some $540 million over the Administration's budget but $332 million under Reconciliation ceilings.

The Administration's FY 84 budget request represented a marked turnaround from its FY 83 proposals for student aid, but nevertheless called for further restriction of educational opportunities. Pell Grants, Supplemental Grants (SEOG), Direct Loans (NDSL), and State Student Incentive Grants (SSIG) were to be replaced by a new "self-help supplement" grant program and an expanded Work-Study program. Student aid funds would be reallocated to effect "a major philosophical shift" by requiring significantly increased family contributions, student borrowing, and self-help. To accomplish this goal the Administration proposed to modify the formulas by which Pell Grants are computed to remove many students from eligibility. By its own estimates, the net effect would eliminate approximately 1 million student aid awards.

Guaranteed Student Loans would be restricted further, by requiring all recipients to undergo a needs test (now required only for those with family income over $30,000), and by doubling the loan origination fee for graduate students. These steps were estimated to save $127 million. GSL costs were estimated at $2.2 billion - down almost $1 billion from FY 82 levels - primarily due to reduced interest rates.

The Administration again proposed to eliminate graduate fellowships for minorities and women, and sought to impose a 77 percent cut on the special services (TRIO) programs.

The budget also proposed a new initiative: an Education Savings Account under which families would be able to make an annual investment of up of to $1,000 per child per year; interest and dividends would be tax-free. Eligibility for the program would be phased out at incomes between $40,000 and $60,000. Savings could be used to pay tuition, room and board directly to a college, but only for full-time undergraduates between ages 18 and 26. The Administration claimed the program would make savings more attractive to lower- and middle-income families, and add to the pool of savings available to individuals and businesses through lending institutions. The cost was estimated at $100 million by FY 85 and $200 million by FY 86.

The FY 84 appropriation bill, signed into law October 31, 1983 rejected the Administration's recommendations and increased overall funding of the current programs as follows:

	FY 83		FY 84 Reconciliation Ceilings		FY 84 Reagan Budget		FY 84 Approp.		
Pell Grants	$2.419	B	$3.000	B	$2.713	B	$2.800	B	
SEOG	355	M	370	M	0		375	M	**
CWS	590	M *	550	M	850	M	555	M	**
NDSL	179	M	286	M	0		161	M	
SSIG	60	M	77	M	0		76	M	
TOTAL	$3.603	B	$4.283	B	$3.563	B	$3.967	B	
TRIO	154.7	M	170	M	35	M	164.7	M	
Graduate Fellowships									
GPOP	10	M	14	M	0		11	M	
Public Service	1.9	M			0		2.5	M	***

* Includes $50 million Supplemental added in the emergency jobs bill passed March 1983.

** Includes $5 million added in 2nd Continuing Resolution passed November 14.

*** Includes $500,000 added in the Supplemental Appropriation signed November 30.

FY 85 Appropriations

President Reagan's FY 85 budget showed a slight increase for higher education - attributable entirely to a $584 million increase in the estimated cost of the Guaranteed Student Loan program. Otherwise, student aid cuts were proposed totalling $330 million, representing 913,000 awards to undergraduate and graduate students:

Pell Grants were to be reshaped into a "Pell Self-Help Grant Program," with students expected to contribute a minimum of $500 or 40 percent of college costs through work or loans before receiving a grant under the proposed program, budgeted for $2.8 billion -- the same level as FY 84. The maximum grant would have been raised from $1,900 to $3,000, but eligibility requirements would have been restricted by raising taxation rates on discretionary family income. The Administration estimated 290,000 fewer awards would be made, and 80 percent of the requested funds would go to students with family income under $12,000.

Supplemental Grants (SEOG) were proposed for elimination, which would have cut some 655,000 awards and ended a program which is especially critical for students with higher cost of attendance such as those attending independent institutions or public institutions outside their state.

Direct Loans (NDSL). Federal capital contributions, providing 201,000 awards, would have been ended, and legislation was proposed to increase the interest rate from 5 to 8 percent, consistent with GSL rates. The Administration estimated that continuing payments into the revolving funds from prior loans would provide $585 million for loans to 731,000 students.

State Student Incentive Grants (SSIG) were to be eliminated, jeopardizing 304,000 awards.

College Work-Study (CWS) was to be increased $295 million from the FY 84 level, increasing the number of awards from 870,000 to 1,205,000.

Guaranteed Student Loan (GSL) revisions were proposed to require all recipients to undergo a needs test to determine the amount of their loan, which would significantly restrict access to loans by graduate students as well as independent undergraduate students in public institutions. The Administration abandoned its attempt of FY 84 to double the origination fee to 10 percent for graduate students, but sought legislative changes to increase state loan agencies' share of default and administrative costs.

The TRIO programs would have been cut in half to $82 million, ostensibly to focus aid on institutions with predominantly minority enrollment (although seven out of ten black students and over nine of ten continental Hispanic students are enrolled in majority-white institutions). Legislation was proposed to require institutional matching of federal grants, and to consolidate the Talent Search and Educational Opportunity Centers programs.

Graduate Support was proposed for elimination - only weeks after the bipartisan National Commission on Student Financial Assistance reported "serious signs of distress" in this sector, unanimously declaring that "federal support is indispensable to excellence in graduate education." This would have eliminated about 1,700 fellowships for minorities and women and participants in public service programs.

An Education Savings Account was again proposed to "encourage low- and middle-income families to save for their children's future."

Congress rejected the Administration's recommendations, passed a Budget Resolution with ceilings for higher education providing ample room for increases in student aid, and subsequently passed an appropriation bill which increased student aid by $970 million, or $1.3 billion more than requested in the President's budget. Some $775 million of the increase went to the Pell Grant program to raise the maximum award $200, to $2100, and to provide $250 million in supplemental funds to meet previous shortfalls in the program. The increases were distributed as follows:

	FY 84 Approp.		FY 85 Admin. Request		FY 85 Final	
Title IV						
Pell Grants	$2.800	B	$2.800	B	3.575	B *
SEOG	375	M	0		412.5	M
CWS	555	M	850	M	592.5	M
NDSL	161	M	0		190	M
SSIG	76	M	0		76	M
Total	$3.967	B	$3.650	B	4.846	B
TRIO	165	M	82	M	175	M
Graduate Fellowships						
GPOP	11	M	0		12	M
Public Service	2.5	M	0		2.5	M
Javits	0		0		2.5	M

* Includes $250 million supplemental funds for previous shortfalls